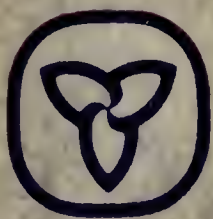


ANNOTATED LIST  
OF ONTARIO ECONOMIC  
COUNCIL RESEARCH  
PUBLICATIONS  
1974-1980



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SUPPLEMENT TO  
ANNUAL REPORT  
1980



ANNOTATED LIST OF  
ONTARIO ECONOMIC COUNCIL  
RESEARCH PUBLICATIONS

1974-1980



January 1981

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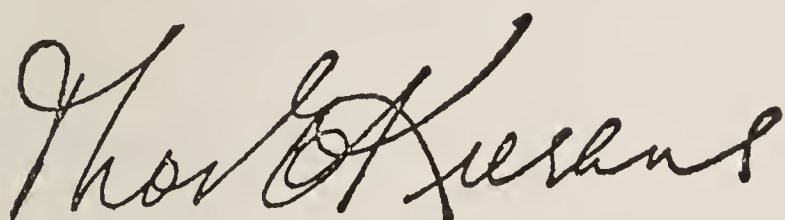
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## PREFACE

An important function of the Ontario Economic Council is to promote a greater public awareness and understanding of current economic policy issues as they affect the province. As part of this mandate, the Council has published a number of research studies in the last several years in the areas of health, education and manpower, social security, northern affairs, intergovernmental relations, urban affairs, government regulation, macroeconomics, and energy.

This annotated bibliography of publications from 1974 to the present is designed to inform the general public of the research work of the Council. The list of publications will be updated annually in an appendix to subsequent Annual Reports.

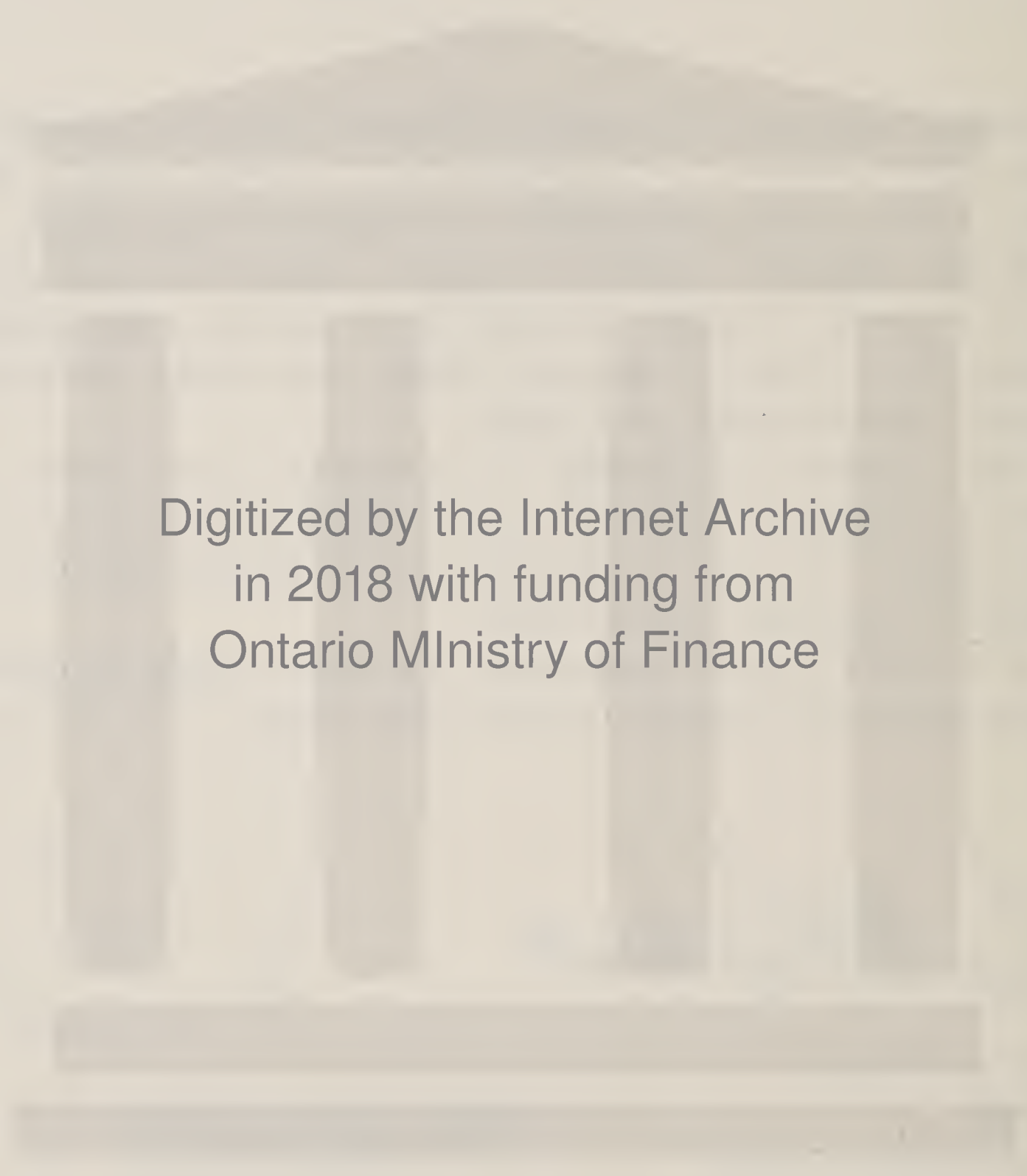
It is hoped that this bibliography will make a useful contribution to those undertaking research in public policy fields.

A handwritten signature in black ink, reading "Thomas E. Kierans". The signature is fluid and cursive, with the first name "Thomas" and last name "Kierans" clearly legible.

Thomas E. Kierans

Chairman

Ontario Economic Council



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## Discussion Paper WP 1/74 (1974)

### The Ontario Economic Council

G. Reuber

Grant Reuber, then chairman of the Ontario Economic Council, traces its history from establishment by Order-in-Council on 1 February 1962 to the beginning of its third stage of development in late 1974.

## Discussion Paper WP 2/74 (1974)

### International Inflationary Linkages and Recent Experience in Individual Countries

J. Pattison

This study provides 'a statistical background to enable events and theories concerning inflation as an international phenomenon to be put in their proper perspective' (page 1). Figures showing a divergence of inflation rates among OECD countries are discussed and an analysis of recent international developments in exchange rates, money supplies, trade prices, and aggregate demand is presented. In addition, the linkage between inflation and the commodity price boom of the early 1970s is examined.

## Discussion Paper WP 3/74 (1974)

### Adjustment to Inflation

J. Pattison

This study examines the effects of inflation and reviews methods of adjustment in taxation and transfer payments, and in labour and financial markets. The author concludes that indexation of wages and prices will not in itself generate faster price increases.

## Discussion Paper WP 4/74 (1974)

### Outlook '75, Canada and Ontario

C.D. Hodgins

In this published version of a speech prepared for the Ontario Economic Council's Outlook '75 Conference, the author reviews the 1974 forecasts of the Canadian economy and made his predictions for Canada and Ontario for the coming year. This is done by first examining the strengths and weaknesses of each of the various sectors of the economy, and subsequently by aggregating the sectors to obtain an overall picture.

## Discussion Paper WP 5/74 (1974)

### A Responsible Economic Package

S.L. Jones

In this published version of his address to the Ontario Economic Council's Outlook '75 Conference, Sidney L. Jones examines the five economic myths which he believes complicate efforts to develop responsible policies.

Misguided belief that current problems stem from unknown sources generates apathetic policy response. Arguing against the necessity for a large economic stimulus, Jones also stresses that inflation is not the only problem, and that any policy would have painful side effects.

## Discussion Paper WP 6/74 (1974)

### The Politics of Inflation

J.J. Deutsch

This study examines the impact of government expenditures on inflation and the politics of measures to control inflation. Viewing inflation as essentially a monetary phenomenon, Deutsch concludes that conflicting political pressures must be reconciled to provide the restraint necessary to control inflation.



## The Evolution of Contemporary Policy in Ontario (1974)

This is a five-part series of studies dealing with the evolution of contemporary public policy in Ontario in the post-war period, with implications for the future.

The Economic Transformation of Ontario: 1945-73 by D.R. Richmond reviews economic policies of the provincial government in the post-war period, concluding that 'the central issue is co-ordination of economic policy within a multi-level system of government' (page 47).

In The Protection and Use of Natural Resources in Ontario, W.R. Smithies 'deals with the growth of provincial policy in the resource and environmental fields and indicates potential problems facing the provincial government in the years ahead' (page 3).

The widening role of the provincial government in social policy is examined by V. Lang in The Service State Emerges in Ontario.

The Role and Place of Ontario in Canadian Confederation by J. Martin looks at the relations between the federal government and the Government of Ontario. 'To Ontario, the key aspect of federal-provincial relations is finance. It is not constitutional or jurisdictional matters. This must be clear from the beginning because that is why the Report concentrates on finance, relegating constitutional issues to part of the discussion on relations between Ontario and Québec' (page 2).

The central thesis of Ontario 1945-73: The Municipal Dynamic by L.D. Feldman is that in the wake of the creation of regional governments, the autonomy left to municipal governments is virtually meaningless.

## Research Study 1 (1975)

### An Economic Analysis of Environmental Policies

D.N. Dewees, C.K. Everson, and W.A. Sims

The authors, making use of the traditional analysis of pollution problems, review the externalities concept, and discuss cost and benefit functions as presented in the literature and as applied to a study of Ontario's environmental problems. They urge the inclusion of allowances for information-gathering and monitoring of control policies

as essential elements of the cost function and contend that these matters, generally ignored by economists, should and will be recognized by politicians in formulating pollution control policies. In lieu of a formal conclusion, they apply this framework to examine three specific pollution problems: sulphur dioxide from a smelter, lead from downtown factories, and urban automobile emissions. Possible pollution control strategies for these problems are put forth and examined for their economic and environmental impact as well as for the cost of supervising and initiating the policy.

#### Research Study 2 (1975)

##### Property Crime in Canada: an econometric study

K.L. Avio and C.S. Clark

This is the first attempt using econometric techniques and Canadian data to study property crime as rational economic behaviour. Supply-of-offences functions for five types of property crime are specified and estimated using provincial data for 1970-2. Both the probability of apprehension and the probability of conviction are shown to have a substantial negative effect upon most kinds of property crime, with the conviction rate exhibiting the stronger influence. The generally significant inverse relationship between expected sentence length and the crime rate found by other researchers does not appear for the crimes investigated here. The results also indicate that estimating supply-of-offences functions over such aggregate categories as 'property crime' can lead to unjustified generalizations about particular types of crime.

#### Discussion Paper WP 1/75 (1975)

##### Some Preliminary Evidence on Family Income Concentration in Ontario

H.M. Kitchen

This paper measures the relative impact of a number of socioeconomic factors affecting inequality in the distribution of family income. Using data from the 1971 census for all urban centres in Ontario with population in excess of 10,000, the author runs cross-section regression



equations with Gini co-efficients as the dependent variable. The study finds median income, the percentage of the population with a university degree, and the percentage of the population employed in manufacturing to be some of the more important explanatory variables.

#### Discussion Paper WP 2/75 (1975)

##### A Cross-Sectional Analysis of Canadian Public Attitudes Towards U.S. Equity Investment in Canada

J.A. Murray and L. LeDuc

The major focus of this study is a cross-sectional survey of public perception of the costs and benefits of United States direct investment in Canada. The data used were collected in a public survey commissioned by the authors in 1973. They find that inflation, unemployment, and the environment are considered to be more important issues than U.S. equity investment in Canada, which is considered to be a 'bad thing' by only fifty per cent of Canadians. The study also considers the questions on a sex, age, and political association breakdown.

#### Discussion Paper WP 3/75 (1975)

##### A Research Agenda in Health Care Economics

R.D. Fraser

The author identifies and reviews eight major potential areas of research in the health care field. The selection of the topics was based upon a 'subjective evaluation ... using the following criteria: the presumed comparative advantage of economists and their methodology, the likelihood of obtaining sufficient data to carry out the research, and the relevance of the problem and research of it on intermediate term policy.' Included as research topics are incentive systems for physicians, economic agents in the hospital, consumers of health care, government policies and actions, and non-hospital activities such as organization of resources and the distributional impact of government health insurance. In each case the relevant theory, or theories, and major pieces of the literature are reviewed to illustrate the 'gaps in the literature,' which are then identified in a research agenda section.

Student Loans: a reappraisal with special reference to Ontario's and  
Canada's changing needs in educational finance

E.G. West

There are two implicit presumptions in the financing of human capital investments. The first is that the private capital market operates imperfectly in educational finance. The second is that the government can intervene in the market to make it an efficient one. This study examines the effectiveness of student loan programs in achieving the efficient market goal. Using both theoretical and empirical arguments, the study finds the relative advantage of government financing, through student loans, is not as great as commonly believed.

The author proposes a modification of the government's loans program designed to help eliminate the inefficiencies. Among the proposals are an extended loan repayment program and a tax on graduates.

General Study (1975)

Information: a critical component for better government

The increasing degree of urbanization provided the stimulus for this report's investigation into local and regional government data. It was found that since information is dispersed over a wide range of publications, accessibility is limited. Attempts to improve the information base have been inadequate and this must affect the efficiency of the local and regional governments. The report suggests that the data be stored in a central data-bank system operated by the provincial authority.

Research Study 3 (1976)

The Effect of Energy Price Changes on Commodity Prices,  
Interprovincial Trade, and Employment

J.R. Melvin

The author sets out to determine the effect on commodity prices in



Ontario of an increase in the price of petroleum and natural gas, and then estimates the effect on production and employment. A 100 per cent increase in energy prices is assumed. Using an input-output table for Ontario, he establishes that commodity prices would increase by a relatively modest 2.7 per cent overall and by less than 1.6 per cent in basic manufacturing. However, relying on Cobb-Douglas utility functions, he calculates that employment in Ontario would fall by from 2 to 4 per cent.

He then considers various economic policy alternatives open to Ontario, and concludes that subsidies to offset commodity price increases would be very expensive and difficult to administer, while retaliatory measures, such as a change in the Ontario Corporate Income Tax, would be inefficient. He concludes that, from Ontario's point of view, the best economic policy would be to attempt to ensure that petroleum and natural gas prices remain uniform throughout Canada.

#### Research Study 4 (1976)

##### Tariff and Science Policies: applications of a model of nationalism

D.J. Daly and S. Globerman

The authors in this first attempt to test empirically an economic model of nationalism make use of a model that implies that an emphasis on nationalism ultimately reduces economic efficiency - with low income groups bearing most of the resultant cost - and redistributes income from lower to upper income individuals.

Applying the model to federal commercial and science policies, the authors argue that these policies have contributed to the high cost and low productivity of Canadian manufacturing and retarded the adoption of new processes and improved techniques. They find that the costs of these policies are borne by the urban worker and the consumer, while the major beneficiaries are Canadian managers, scientists, and engineers. The efficiency and competitive position of Canadian industry are reduced and income is redistributed from lower to upper income groups.

Past science policies in Canada were designed to encourage a broad range of Canadian research and development capabilities. However, the study also pointed out that there has been a slower adoption of new manufacturing processes in Canada than in the United States and Europe.

The authors conclude that greater trade liberalization and increased industrial specialization would benefit Canada and Ontario, that more emphasis should be placed on rapid diffusion of innovation, and that research should be concentrated in fields where Canada has a potential competitive advantage.

#### Research Study 5 (1976)

##### A Theory of the Expenditure Budgetary Process

D.G. Hartle

D.G. Hartle offers an original, and at times sharply critical, review of the theories of public decision-making advanced by such analysts as Downs, Breton, Niskanen, and Wildavsky. He argues that their inadequacies can be overcome if politics, like the economy, is recognized as a process in which individuals and groups seek to maximize their satisfactions. He shows how the federal budget is the outcome of a series of utility-maximizing games between politicians, bureaucrats, interest-group leaders, journalists, and voters. His approach is clearly applicable to decision-making in all organizations, both private and public.

#### Research Study 6 (1976)

##### Resources, Tariffs and Trade: Ontario's stake

J.R. Williams

Has the Canadian tariff really benefited Ontario? This widely accepted perception has never been confirmed empirically. Evidence is presented in this book that the tariff, despite its intention, has not succeeded in encouraging the growth of secondary manufacturing in Ontario, or in Canada as a whole. Surprisingly, the tariff may have encouraged agricultural production in Ontario, compared with other provinces, but the amount of processing and manufacturing in the province, according to this study, has been reduced below the level possible with free trade.

Williams suggests that the Canadian tariff has raised the cost of end-product processing, relative to earlier stages of processing, by



shifting production to commodities using resources that are scarce in Canada. He maintains that freer trade would encourage final processing, because with lower tariffs intermediate products could be obtained at world prices and more abundant Canadian resources would be used.

Discussion Paper WP 1/76 (1976)

Labour Market and Other Implications of Immigration Policy for Ontario

W.L. Marr

This study examines the effects of immigration on the economy of Ontario with specific attention paid to the impact on the labour market and immigrants' usage of educational and health facilities.

A number of simulations of the Ontario economy were conducted by reducing the level of net inward migration from its historical level and making various assumptions as to the employment distribution of migrants. Marr concludes that the rate of unemployment would not fall if net migration were cut back and that changes in migration policy should concentrate on the direct employment effects in manufacturing rather than construction or commercial services.

Discussion Paper WP 2/76 (1976)

Exploitation of Ontario's Mineral Resources: an economic policy analysis

J.C. Leith

This study examines the mineral sector in Ontario with a view to deciding whether or not government intervention is merited. Various economic rationales for government intervention are examined, including the riskiness inherent in mineral exploration and production and the existence of a substantial degree of foreign control. Leith concludes that there is little economic rationale for intervention in the mineral industry.

## Issues and Alternatives 1976

### Education

The Council recognized four major objectives: greater equality of opportunity, improved allocation of resources in education, freedom to choose for both the student and institution, and the provision of a suitable environment in which students can develop cultural and intellectual abilities.

At the primary level it was thought that training for the core courses, English, French, and mathematics, should be improved and tested by province-wide exams. It was suggested that the latter would enhance competition among schools and identify gifted students from deprived homes who could be given the necessary incentive to continue their education. The Council believed the government should improve information flows to students about to make a decision between entering the labour force and continuing their education.

On the issue of financing it was suggested that the provincial governments negotiate minimum salary levels and allow local boards to negotiate any extra amounts. Because provincial governments had applied financial stringency to post-secondary educational institutions in recent years, and in light of the freeze on fees, the Council recommended that tuition fees be set at the discretion of the institution and that government grants not diminish as fee revenues rise.

## Issues and Alternatives 1976

### Health

The Council thinks that one of the main implications of the Hall Commission Report on Health Services was that the public purse would have to underwrite all costs of hospital and medical services. In light of this, the Council thinks that it was an error not to attempt to rationalize the health care system at the same time. On the positive side, the Council concluded that one of the most attractive recent reform proposals was the introduction of group practice, which encouraged medical manpower substitutions. At the hospital level, control of hospital expenditure should be assumed at the Ministry of



Health or District Health Council level to avoid the potential barriers to change raised by powerful vested interests in the community. The Council stresses the need to develop less costly alternatives to in-patient hospital care. To reduce the inequality of geographic distribution of physicians, the Council recommends that only those physicians who filled a vacancy established by the Ministry of Health register with OHIP. The Council is in favour of using District Health councils to decentralize the health care system. It is recommended that incentives systems be organized in tandem with delivery systems; implementing one problem without the other will not solve the overall problem. Specifically, the Council proposes the following: an end to the open-ended cost-sharing agreements between the federal and provincial governments; an end to the fee-for-service system in the context of a publicly financed health care system, and its replacement by salary or capitation; the setting up of a system whereby cost-sharing by patients would be related to the use of health care services and ability-to-pay criteria.

## Issues and Alternatives 1976

### Housing

The Council identified three specific problems in the housing market of the mid-1970s. First, households did not have sufficient income to purchase what society deemed a sufficient quantity of housing. Second, impediments existed on the supply side which kept the price above what it would be in a normally functioning economy. Third, society did not own homes as frequently as it deemed appropriate.

Until the mid-1960s, the mortgage insurance program and residual lending program benefited mainly middle-income families who were able to own single detached homes, although it also resulted in increases in the stock of rental buildings. Hence, initially few impediments existed in the mortgage market.

After the mid-1960s, housing programs began to reflect a concern with equity, although the Council concluded that these programs (eg, public housing) did not fulfil their goal, since they benefited only a lucky few. In addition, rent control was seen as an inequitable method of redistributing income. Programs to encourage the construction of

homes for ownership were deemed appropriate inasmuch as they operated to remove impediments to increases in the supply of housing, but generated concern, where they transferred income to new homeowners, at the expense of the general population. In general, the Council thought that most programs were inequitable because they offered unequal benefits to households in similar circumstances and did not provide benefits on the basis of need. Therefore a shelter allowance scheme was suggested, under which a household would receive a coupon for the purchase of accommodation in the private market.

Government regulations were seen to have increased the cost of housing, and thus decreased its supply. Local authorities often were opposed to new developments within their jurisdiction, and to solve this problem the Council advocated that new and existing residents pay the capital costs of servicing a new development, in accordance with benefits received.

## Issues and Alternatives 1976

### National Independence

The Council thinks that many of the problems of national independence are caused by existing Canadian economic policies. The complexity of the situation raises doubts among Council members as to whether the best interests of Canadians are being served by the Foreign Investment Review Agency, since most foreign investment occurs because of the tariff. For example, when the agency restricts investment in key areas, it also restricts competition in those areas. In the field of finance, the Council believes that only by encouraging competition would lending to small developing Canadian companies be increased. The Council also advocates that current tax policies be reviewed to ensure consistency in light of the conflicting goals of reducing foreign ownership and control. To achieve cultural independence, the subsidization of Canadian activity is favoured over restrictions on foreign activity. Canadians should be made aware of the costs and benefits of increased independence at both the efficiency and equity level. Finally the Council proposes a comprehensive, instead of piecemeal, approach to policy-making.



## Issues and Alternatives 1976

### Northern Ontario Development

The Council concludes that government regulation has created artificial barriers to the efficient development of the North. In the field of transport, trucking regulation has resulted in overly high rates, and in housing the application of province-wide rules that are inapplicable to northern conditions has hindered development. In forestry, the Council believes that the pressure for increased public expenditures should be considered in the light of the special needs of the forestry industry.

Public policies designed to influence northern development should be primarily concerned with their effect on people living in northern Ontario, although this should be done within the context of an efficient allocation of resources. The government is urged to recognize the distributional aspects of its programs.

Mobility grants that mitigate the effects of economic decline in certain regions and provide an incentive for the efficient allocation of populations and labour supply ought to be implemented. Subsidized loan and incentive programs, as a tool for regional development, should be broadly based on criteria which would emphasize long-term economic viability. The Council recognizes the importance of growth centres. Concerning the DREE grant system, the Council is aware of the capital bias inherent in the program and argues that incentive grants should not be biased towards labour or capital.

The Council urges an end to the uncertainty surrounding the future prospects of the mining industry. This can be done by resolving conflicts inherent in the existing set of federal and provincial policies.

## Issues and Alternatives 1976

### Social Security

The Council recognizes that the extent to which poverty exists is strongly contingent on the period of time over which income measures are taken and that a longer, rather than shorter, view of poverty seems appropriate. In addition, net assets should be taken into ac-

count when measuring poverty. Since poverty does not appear to increase with age of the family head, the Council doubts the wisdom of extending further transfers and in-kind subsidies on the basis of old age alone. The Council notes that heavy spending for social security has not succeeded in eliminating poverty because large amounts have been collected by upper- and middle-income groups. Family benefits and general welfare assistance programs are seen as appropriate for persons who could not work, but less so for the employable poor. General welfare assistance, family benefits, and GAINS yielded differences in benefit levels, the qualifications for which are difficult to justify. The Council thinks that an increase in the minimum wage is unlikely to combat poverty, since it might mean so high a wage for some labour as to make it unemployable. In-kind subsidies for daycare are felt to be undesirable, and it was thought that direct employment in the public sector should be limited so as to avoid disrupting labour markets and moreover that, for equity reasons, it should be confined to the poor in the same way as other transfers. The Council advises the adoption of a dual federal-provincial income supplementation or negative income tax scheme for the working poor.

#### Research Study 7 (1977)

##### Transportation Rates and Economic Development in Northern Ontario

N.C. Bonsor

This study examines the influence of transport costs on regional economic development in northern Ontario. The author begins with an overview of the Canadian freight rate structure, with emphasis on railway rates, and a brief look at the history of federal rate policy. A theoretical model of rate determination is then constructed to permit measurement of the impact on producers and consumers of alternative rate-setting policies. Using econometric techniques and 1975 data, rate changes are related to the inputs and outputs of northern Ontario's economy, and the effect of subsidies and regulation on the region is discussed.

Freight rates on inbound shipments are found to be much higher than on goods exported from the area. A central discovery is that regulations limiting competition in the Ontario trucking industry have



raised highway freight rates significantly beyond the national average. Bonsor argues that in this situation, transport subsidies are unlikely to affect rates; he suggests that the most effective way to lower unduly high freight rates in northern Ontario would be to eliminate entry restrictions and promote vigorous competition in the highway trucking industry. The analysis also indicates that the existing structure of freight rates discourages the establishment of secondary manufacturing plants within northern Ontario and that small-volume shippers located in the region, unable to take advantage of the competitive rates offered by rail and highway carriers, suffer greatly from locational disadvantages.

#### Research Study 8 (1977)

##### Government Support of Scientific Research and Development: an economic analysis

D.G. McFetridge

The author examines the government's role in allocating resources to scientific research and development. Starting from the premise that state intervention can be justified only if it increases economic efficiency, he assesses the merits of alternative forms of government intervention, such as extending the scope of property rights to scientific discoveries, providing research and development subsidies, or putting the operation of research facilities under government control. Focusing on the conditions under which subsidies should be granted, he evaluates provisions which discriminate between foreign and domestic applicants or between exporting and non-exporting applicants, or require that any inventions resulting from subsidized projects be worked on or manufactured in Canada. In addition, a method for determining the size of the subsidy to be awarded is presented.

In his analysis of current Canadian research and development subsidy practice, he estimates the extent to which subsidies may have been used to achieve alternative goals (such as providing support for failing firms), their effect on the total value of resources allocated to research and development, and the connection between research expenditures and patenting activity. Evidence is found that the present subsidy system has had the effect of increasing total research and development expenditures, which in turn has stimulated patenting acti-

vity. Whether the inventions obtained were worth their cost is, however, left an open question.

#### Research Study 9 (1977)

##### Public and Private Pensions in Canada: an economic analysis

J.E. Pesando and S.A. Rea, jr

At current contribution rates, the investment fund of the Canada Pension Plan will be exhausted before the end of the century. At an inflation of rate of 8 per cent, the real value of today's private pension will be cut in half every ten years. The implications of these and related problems are explored by Pesando and Rea in their analysis of public and private pensions in Canada. The analysis of private pension plans examines the adequacy of vesting and 'locking in' provisions, together with the broader question of whether the private pension system as currently constituted can remain viable in an inflationary climate. The analysis of public programs focuses on the financing of public pension plans, the income redistribution effects of the Canada Pension Plan, and the incentive effects of public retirement programs. A computer model which simulates the life histories of a large sample of Canadians indicates that the CPP tends to transfer wealth to those with a relatively high lifetime income.

This incisive analysis pinpoints the inadequacies of current provisions for retirement income and outlines the direction which planning must assume if the intentions of pension programs are to be fulfilled. The authors' conclusions have wide-ranging social and economic implications. One proposal suggested is the introduction of indexed government bonds and annuities, which would enable private pension plans to provide uneroded retirement benefits and yet remain actuarially sound, but the authors concede that the creation of such investment instruments would likely produce a major transformation of the Canadian financial system.



## Research Study 10 (1977)

### Speculation and Monopoly in Urban Development: analytical foundations with evidence for Toronto

J.R. Markuson and D.T. Scheffman

The recent rapid rise in land and housing prices in Canadian cities has generated much public concern. It is widely supposed that prices have been inflated by monopolistic developers, an assumption that has never been adequately tested. This study develops a model of the land development process which includes a new theory of land pricing giving special emphasis to market structure, speculation, and taxation. It then applies the model to the first fully documented examination of the Toronto land market, presenting specific original data on ownership and land assembly. The history of the conversion of farmland to residential use in four recent Toronto subdivisions permits a close look at the activities and profits of speculative middlemen and at the length of time developers buy land prior to subdividing.

The results indicate that Toronto real estate is not controlled by a few large developers, that ownership concentration is too low to imply market power even if all companies with overlapping corporate control are treated as a single firm. The authors suggest that rising prices have been caused by unforeseen increases in demand, shortages of municipally provided trunk service capacity, especially sewers, and frequent municipal reluctance to grant subdivision approvals.

The study concludes with a general consideration of the role of government in land development and a number of specific policy recommendations concerning the subdivision approval process, the Ontario Land Speculation Tax, and public land banking.

## Research Study 11 (1977)

### Day Care and Public Policy in Ontario

M. Krashinsky

The last decade has seen rapid growth both in the use of extra-family care by working parents and in public involvement in the daycare sector. After tracing the development of daycare in Ontario, the study

focuses on two crucial policy issues: should daycare be subsidized and should the daycare industry be regulated. Using a model of household decision-making, Krashinsky demonstrates that the Ontario subsidies to daycare are an inefficient way to assist working parents. Instead, he proposes a system of tax reductions which would enable many more families to take advantage of a greater range of childcare facilities. If subsidies are to help children, he argues, they must apply to all children in need, whether or not their parents work and use daycare. A general nursery school voucher system, he suggests, would be an effective approach.

Although regulation in Ontario has been useful, Krashinsky suggests that the province would be better served by an active public agency that restricted itself to collecting and disseminating information. He concludes that the province has been well served by a mixture of public, private, and non-profit daycare institutions and that each mode has a role to play in an evolving sector.

#### Research Study 12 (1977)

##### Provincial Public Finance in Ontario: an empirical analysis of the last twenty-five years

D.K. Foot

This study examines an issue that has been the focus of much public discussion and debate in Ontario and elsewhere, namely the size and growth of the public sector. Working with public accounts and other sources, Foot offers both an historical account of, and an explanation for, the growth of provincial revenues and expenditures since the early 1950s. By concentrating on an analysis of the development of a single government over time, rather than adopting the traditional cross-section approach of analysing a number of junior level governments at a point in time, this study adds a significant perspective to the literature concerned with the theoretical and empirical analysis of the behaviour of junior level governments.

Several important conclusions about the behaviour of the revenues and expenditures of the Ontario government over the period 1950-75 are made. On the revenue side, a rate-base approach which separates discretionary from automatic changes in revenue determinants is shown



to provide sufficient flexibility to accommodate the analysis and explanation of a wide range of specific revenues. On the expenditure side, the provincial government is found to adjust reasonably slowly to new levels of desired expenditures, which appear to be determined primarily by demand variables. Of particular interest are findings which suggest that urbanization and elections appear to have had little effect on provincial expenditures and that available federal funds have tended to be a substitute for provincial funds.

#### Occasional Paper 1 (1977)

##### Basic Skills at School and Work: the study of Alberttown, an Ontario community

O. Hall and R. Carlton

The purpose of this study was to investigate the preparedness of elementary and secondary school students in basic mathematics and English skills set against the requirements of the work-place and post-secondary institutions. The authors carried out their research in a medium-sized urban community in southern Ontario identified only by the pseudonym 'Alberttown.'

What emerged from their research was 'in large part, a study of dramatic changes in the world of education and the structure of employment opportunities, not at the ideal level of paper curricula or codified job descriptions but at the level of immediate experience of participants in the daily routine of the classroom, office, or factory' (preface). The authors found that variations among elementary students in the ability to learn basic skills and in attitudes towards schoolwork depend more on factors external to the school than on formal instruction and curricula. These factors include the cultural and socio-economic backgrounds of parents, the stability of family life, and the parents' attitude towards the education of their children. Among secondary school students, 'preoccupations with part-time work, consumption, dating, and mating, or pure sociability and recreation will, at times, all take precedence' (page 170) over schoolwork. The authors found that the basic skills of Ontario high school graduates are adequate for most employment demands, but that there is strong evidence that graduates are poorly prepared to cope with post-secondary educational programs.

Prospects for Preventative Medicine: a catalogue

R.W. Morgan

This study is a catalogue of preventive programs which examines their rationale and their problems. It discusses criteria which should be applied in deciding whether or not to implement suggested new programs. As well as examining criteria for effectiveness, Morgan makes numerous recommendations on a disease-specific basis and provides a suggested division of responsibility for the implementation of viable preventative programs. The basic methodology used by the author involves an examination of morbidity and mortality data for Canada, some visits to health centres outside Canada, and a review of the methods of prevention available or proposed for every disease in the International Classification of Diseases.

According to Morgan, the best prospects for prevention of disease lie in the improvement of the environment and quality of life rather than in the practice of medicine. The individual's 'most effective means of preventing premature death - the avoidance of smoking and wearing seat belts - are behaviours totally unaffected by his experience with doctors. That is not to deny the extreme importance of individual preventive behaviours: these must be encouraged either through legislation or more innovative methods of promotion' (page 92). Morgan calls for increased understanding of the roles played by non-medical individuals and organizations in the improvement of disease prevention and the increased acceptance of these roles. A specific recommendation with respect to primary prevention in the work-place is that each industry employing more than ten people should prepare a health impact statement which 'would list known or suspected hazards of the processes used and the materials handled in that particular industry along with methods for avoidance of hazards and a schedule for detection of health problems' (page 84).



Educational Problems in Ontario and Some Policy Options

J.A. Buttrick

In this study, Buttrick investigates educational problems that Ontario will have to face over the next decade: mismatches in the labour market for graduates of post-secondary institutions, changes in manpower requirements in the secondary and post-secondary teaching professions, and the budgetary problems of colleges and universities. By modifying recent forecasts of the number of persons entering the labour force in the period 1974-82 and the number of jobs available to them, the author reaches two definite conclusions: female post-secondary graduates will be unable to find the jobs in the teaching, nursing, and social work areas that they anticipate; and a bumping process will occur in which persons with post-secondary credentials will be forced to accept jobs at a lower level than expected, thereby edging out persons with only secondary school diplomas who will now be forced to take factory work or lower level white-collar jobs. A significant excess supply of female elementary teachers is predicted; whether new male entrants to secondary and post-secondary teaching will be in excess supply or excess demand depends upon whether there is a continuing reduction in the discriminatory advantage given to Ontario males in these teaching markets. In order to solve the problem of freeing money from the secondary system and allocating it to the elementary system, Buttrick offers the 'economist's solution' - a voucher system.

A compromise policy for post-secondary educational policy is also proposed in the study. Buttrick states that tuition fees should be raised as rapidly as political constraints permit, to meet the real costs of education, but that worthy students be supported in meeting these costs by scholarships, bursaries, and loans. He also argues that grants to post-secondary institutions should be divided into two categories: those tied to enrolment, and those related to research and other public service activities. Buttrick suggests that post-secondary institutions be free to set their tuition fees at any level.

## Discussion Paper (1977)

### An Economic Analysis of the Hall Commission Report

A. Abouchar

This study analyses the recommendations of the Hall Report that refer to the setting of railway freight rates for prairie grain shipments. Recognizing that such recommendations have implications which extend beyond the prairie economy, Abouchar examines them both from the viewpoint of Ontario and Canada as a whole.

Arguing that price distortions encourage inefficiencies in the Canadian transport sector, the author disputes the Hall view that subsidized grain rates are necessary because of the contribution of Canada's grain production to Canada's export surplus. Prices should reflect real social costs except where there are conflicting income distribution objectives. The only exception recommended by Abouchar are proposals for a subsidy to prairie municipalities which would lose a large part of their tax base because of the closing of uneconomic rail lines and a subsidy to support some branch lines as an income redistribution measure.

## Discussion Paper (1977)

### Emerging Problems in Post-Secondary Education

In his paper, 'The University on the Road to 1984,' Ian MacDonald notes that universities are behaving as if the general policy of open access of the 1960s was still intended, an attitude which is inconsistent with current government financing policy.

The basic issues in tuition fee determination - equity among students in different types of programs, other issues of equity, and institutional fee autonomy - are outlined by J. Stefan Dupré. He notes that Ontario has not really dealt with these issues but has merely 'muddled through' them.

'Capital Funding in Post-Secondary Education in Ontario: Problems and Prospects' by D.F. Forster outlines the factors which should be considered in capital funding policy and proposes a two-part funding arrangement that would be appropriate for individual universities and would restore balance and equity among universities.



In the final paper, 'Universities and Research,' A.N. Bourns proposes a model for funding research costs that is tied to the different levels of research intensity that exist within the university system.

#### Discussion Paper WP 1/77 (1977)

##### Who Goes to University from Toronto? (plus accompanying appendices)

J.A. Buttrick

This study examines the pre-university streaming process in Toronto high schools. Basing his research on several earlier studies, Buttrick assembles data on individual students and relates each student's academic record to a set of sociodemographic variables. Using a production function for academic ability, he argues that 'the probability of attending university is largely determined by parents in the upbringing they provide for children and by the choice of residential neighbourhood and school' (page 10).

In conclusion, the author makes several recommendations which he believes would help the educational system eliminate economic bias and become more 'egalitarian.' He recommends that more emphasis be placed on science and mathematics, rather than literature and reading, as a way of minimizing the impact of home influences. Buttrick also suggests that Grade 13 be dropped, except as a make-up year for students who are not yet adequately prepared for university. The volume of appendices provides data on every secondary school in Metropolitan Toronto, both public and private, as well as information on neighbourhood characteristics and related matters.

#### Discussion Paper WP 2/77 (1977)

##### Fiscal Knowledge and Preferences in Ontario

D.A.L. Auld

One thousand two hundred and ninety-four people in Ontario were surveyed to discover the level of fiscal knowledge and individual preferences for more or less government spending.

The results indicated that respondents had little knowledge of size and composition of the provincial budget, their personal income tax payments, or the fiscal relationship between the provincial and local governments. Most felt that there was insufficient expenditure on many provincial and local programs; only administrative spending was thought to be in excess. As for the relationship between fiscal preferences and characteristics of respondents, the evidence is mixed. Respondents who live in larger urban centres tend to view provincial spending as excessive and local spending as insufficient. In addition, there is a general tendency for older respondents to view provincial expenditures as excessive.

### Issues and Alternatives 1977

### The Ontario Economy to 1987

In this paper, the Council recommends action on what it regards as some of the more pressing problems that are likely to face Ontario over the next decade. Economic projections prepared by four economists at the Institute for Policy Analysis (University of Toronto) and contained in the OEC publication entitled The Ontario Economy 1977-87 provide the necessary background (see following entry).

In light of the declining availability of funds from such non-public sources as the Canada Pension Plan and the Ontario Teachers' Superannuation Fund, the Council urges the Ontario government to continue to reduce its spending growth.

It also suggests that tying public sector wage increases to those in the private sector would reduce criticism of public sector wage settlements.

The Council's view on government regulation is that regulatory authority should be granted for only limited periods of time and that additional attention should be given to assessing the consequences of regulation.

In terms of managing the economy, 'the Council believes that fiscal policy has become a much less flexible instrument because of the monetary implications of financing deficits' (page xv).



## Issues and Alternatives 1977

### The Ontario Economy 1977-1987

D.K. Foot, J.E. Pesando, J.A. Sawyer, and J.W.L. Winder

This study makes some projections of the economic outlook for the Province of Ontario over the decade 1977-87 by examining trends in population, labour force, industrial output, and provincial government revenues and expenditures. If these trends continue, Ontario will experience 'a slowdown in the rate of growth of output for the economy relative to earlier decades because of (1) a slowdown in the rate of growth of potential output attributable to lower rates of population growth and lower rates of growth of capital stocks in the non-energy sectors of the economy, and (2) a failure of aggregate demand to grow sufficiently rapidly (in the absence of stimulus from governments) for the economy to recover fully from the 1975 recession' (page 2).

An increasing proportion of output will be in the service, rather than goods-producing, industries suggesting that occupational training in service industries should be an important concern of public policy. Since the Ontario labour force is expected to grow by 1 million persons in the period 1977-87, new jobs must be created to prevent a rise in the unemployment rate. The Government of Ontario will face financing problems if basic trends in government revenues and expenditures continue because the flow of funds available to it from the Canada Pension Plan and other superannuation funds is due to decline sharply.

## Issues and Alternatives 1977

### Intergovernmental Relations

This paper addresses what the Council in 1977 believed to be the most important issue facing Ontario and Canada - 'arriving at a satisfactory and broadly-accepted relationship among the various levels of government in this country' (preface). The report consists of two parts, the first of which is a general statement by the Council on the subject. In brief, the Ontario Economic Council calls for the guiding principle of confederation to be 'as much decentralization as possible' to reflect differences among provinces and among local communities while main-



taining at the centre those activities of common interest which can best be done collectively. Coupled with this is the maintenance of fiscal responsibility by requiring each level of government to raise from its own citizens most of the money it spends.

Included in the second part are a series of papers by Richard Simeon, Geoffrey Young, Donald Hugget, Anthony Scott, Carl Shoup, Thomas Wilson, Douglas Auld, and a joint effort by M.J. Treblicock, Gordon Kaiser, and J. Robert S. Prichard. The areas covered are constitutional issues, financing arrangements, and barriers which inhibit interprovincial trade.

## Issues and Alternatives 1977

### The Process of Public Decision-Making

This paper attempts to elucidate the complex process whereby governments arrive at decisions in such areas as health, housing, education, and social security policy. In effect, it challenges the notion of the 'public interest' as a central principle of policy-making. Instead, it emphasizes that just as in the private sector, self-interest and the incentives for those participating in the process - politicians, bureaucrats, and special interest groups - play a major role in determining what decisions are made (and not made). This way of looking at the public decision-making process gives a different perspective on the role of government in our society and the appropriate design of policies. It also leads to the following general observations: 'transaction costs (information and negotiating costs) in terms of resources used in the method of reaching decisions appear to be high and rising' (page xii) and the process can sometimes produce inefficient outcomes; the frequency of policy changes has increased the level of uncertainty in our society.

In conclusion, the Council recommends a number of basic reforms that would improve the performance of our collective decision process:

- '(a) More openness and disclosure of government activities would reduce the ability of special interest groups to secure benefits to themselves and provide an incentive to politicians and civil servants to achieve greater efficiency in the provision of services ...

- (b) improvement in efficiency might be realized by increasing the information on departmental performance available to the public and to the legislature.
- (c) the government-engendered conditions which sustain the power of special interest groups should be examined and perhaps some of them eliminated. The self-regulatory powers of professional groups might be constrained although presumably they cannot be eliminated.' (page xiii).

### Research Study 13 (1978)

#### Extending Canadian Health Insurance: options for pharmacare and denticare

R.G. Evans and M.F. Williamson

This study explores the alternative policy options open to the provincial government for the possible extension of the health care program to cover pharmaceutical and dental expenditures. The authors identify the major public policy objectives involved - namely to spread the risk of illness costs, to redistribute wealth, to influence the use of health services, and to reduce the access barriers to health care - and then examine universal and alternative selective policies with respect to their theoretical success in achieving policy objectives. Next the authors estimate empirically the cost to Ontario in 1975 of adopting one or another of the alternative programs. They conclude first that universal coverage of pharmacare and denticare may be the most costly approach. The second conclusion of the study is that alternative public programs, primarily changes in the service delivery process by increasing competitive pressures and selective public intervention, could meet all or most of the policy objectives as efficiently as a universal program.

A central finding of the study is that the present forms of self-regulated independent practice, insulated from both market forces and direct public intervention, suppress significant opportunities for efficiency improvement. It is estimated that such known improvements could lower dental prices and drug-dispensing fees by as much as forty per cent.



## Research Study 14 (1978)

### Measuring Health: lessons for Ontario

A.J. Culyer

The central theme of the study is to demonstrate that the health status of the population, and not the traditionally employed morbidity and mortality rates, is the appropriate piece of information necessary for running and evaluating the efficiency of the health care system in Ontario. Culyer's criticism of traditional health indicators and indices is that they are based on the numbers of people who are processed through institutions and that they exclude those who need or receive treatment outside hospitals. The argument starts from the economic rationale for government intervention in the health care market and proceeds through to the presentation of data on a county-by-county basis which highlights the limitations of currently available data for both research and decision-making. The author recommends that better health status measures should be developed; if they become available they will be valuable to district health councils as information monitors, and for specific pieces of research they will serve as measures of 'output.'

## Research Study 15 (1978)

### Residential Property Tax Relief in Ontario

R.M. Bird and N.E. Slack

In the early 1970s the Ontario government responded to criticism of the regressive nature of the property tax by introducing tax credit and the property tax stabilization program. Although the two programs differ sharply in operation, both were designed, at least in part, to relieve the burden on the residential property owner. This study proceeds from a broad consideration of the role of the property tax in Ontario's fiscal system and the incidence of the residential property tax to a detailed appraisal of the effectiveness of these programs.

The authors conclude that the property tax itself may not be as regressive as the traditional view has assumed and further, that the relief measures are not as likely to provide as many benefits to the



property owner. Their conclusions raise crucial questions for policy-makers in the continuing discussion of the property tax.

### Occasional Paper 3 (1978)

#### Input-Output Analyses of Fiscal Policy in Ontario

R.W. Boadway, A.A. Kubursi, and J.M. Treddenick; edited by J. Bossons

The monograph is divided into two parts. Part I contains several important extensions of input-output data which are required for analyses of the disaggregated effect of Ontario fiscal policy. These include the construction of detailed estimates of trade flows between Ontario and the rest of Canada, done by Boadway and Treddenick; estimation of the regional distribution of value-added and wage bills of each industry, done by Kubursi; and estimation of the industrial composition of government expenditures, also by Kubursi.

In Part II, the data are used in several analyses of the effects of Ontario government fiscal policy. One analysis, by Boadway and Treddenick, investigates the short-run effect of alternative tax changes with no change in revenues, and finds that they may have substantially different short-run employment impacts. A second, by Kubursi, examines the regional impact of different expenditure programs, and finds that virtually all Ontario government programs have increased the concentration of employment in the Toronto-centred region and of increasing regional income disparities. A third paper, also by Kubursi, evaluates the efficiency of Ontario government expenditures. An introductory chapter by the editor explains the working, structure, and value of input-output models.

### Occasional Paper 5 (1978)

#### The Market for New Housing in the Metropolitan Toronto Area

R.A. Muller

Employing the Toronto census metropolitan area as the geographic area to be analysed, this study examines the major characteristics of the new

housing market. Muller presents a formal theory of the housing market and considers the conditions and constraints over demand and supply. He then computes concentration ratios for subdivision activity and house building using data obtained from the Ministry of Housing and municipal planning departments concluding that concentration in the region as a whole is moderately low, but noticeably higher in most sub-regions. After examining market conduct and performance, he finds 'that the long run performance of the market has been quite good, but that serious instability developed in the period between 1972 and 1974' (page 153). The author contends that government grants and loans programs during the period were overly concerned with stimulating the demand side of the housing market while ignoring constraints on the supply side. He concludes that there is a role for government policy in the housing market, but that it must be directed towards the appropriate side of the market.

#### Occasional Paper 6 (1978)

##### The Income Distribution Effect of Medical Insurance in Ontario

P. Manga

The study raises two questions concerning Ontario's medical insurance plan. First, it addresses the issue of who uses and benefits from the insurance plan. Second, it attempts to explain the pattern of utilization and benefits by a variety of socio-economic and demographic variables that characterize the users of medical services.

Among the many results of the study are the following. With the exception of the lowest income class, there exists a positive relationship between family medical benefits and family income. This is caused mainly by the difference in the average size of the family in the various income classes. Other factors include the high number of fertile women in the middle and higher income classes, higher educational levels (especially of the spouse) in the middle and higher income classes, and the high propensity of richer families to visit specialists. The higher utilization of medical services of the lowest income group is explained by the fact that a large proportion of this group is over sixty-five years of age and has greater health care needs. The study also found that family income is not an important factor in accounting for the differences in family medical benefits.



## Occasional Paper 7 (1978)

### Who Benefits from the Ontario University System?

O. Mehmet

The author examines the equity aspects of higher education, concluding that inadequacies exist in student aid programs, higher returns accrue to students of richer parents and to other non-working students, and that access to professional programs is unequal.

Mehmet applies the theory of human capital to a data base that consists of males graduating from Ontario universities in the spring of 1974. Benefits were estimated from cross-section data on income-by-income class and costs were measured by tax shares by income class, under the assumption that the 'tax burden of specific income groups in university financing is proportional to overall tax shares' (page 26). The benchmark for comparing the results would be a distributionally neutral university system, that is, one which yields a benefit-cost ratio of unity for each income class. The analysis focuses on the distribution of benefit-cost ratios among income classes, concluding that, although the lowest income group gained from the present system, the middle and upper groups had the largest divergence between benefit and cost, while the lower groups generally had benefit cost ratios less than unity. This contributes to the low enrolment rates for children of low income families in Ontario universities, a figure made lower by the importance to these families of the additional income that the high school leaver could earn as an alternative to going to university.

## Occasional Paper 8 (1978)

### Financial Markets and Foreign Ownership

J.C. Pattison

Pattison uses both theoretical and empirical arguments to isolate those characteristics of Canadian financial markets that have influenced the stocks and flows of foreign direct investment in Canada. A comparison of the balance sheets of Canadian-controlled firms and foreign-controlled firms showed significant differences in the portfolio structures. The author identifies macroeconomic factors, such as the current monetary,



commercial, and fiscal policy mix, as influencing financial markets and thus foreign ownership. Moreover, the relatively small size of the Canadian financial market and, in particular segments, its lack of competitiveness encourages Canadian borrowers to deal in external financial markets. Over the period of the study, however, the author noted an improvement in these constraints, in part the result of institutional and legislative changes. In conclusion, the study states: 'although financial factors have played a role in encouraging foreign investment and takeovers, they are not as important as they once were' (page 136).

#### Discussion Paper (1978)

##### Reforming Planning in Ontario: strengthening the municipal role

J. Bossons

The author examines the municipal planning process in detail and finds the present structure to be in need of substantial reform. His study outlines the objectives of planning policy and identifies the major reasons necessitating a multitiered planning system: local and global externalities, a limited tax base for municipalities, and jurisdictional boundaries. The author then proposes a reform program which would preserve and enhance the desirable features of the present system while reducing delays and costs. Included among the recommendations are an increase in the responsibilities of municipal governments and the provision of a set of safeguards in order to improve accountability to both residents and the provincial government.

#### Discussion Paper (1978)

##### The Northern Dilemma: public policy and post-secondary education in northern Ontario

D.M. Cameron

This study examines current provincial education policy in northern Ontario with a view to proposing a specific policy for post-secondary education. The author recommends that changes in government policy

and the institutional framework are necessary if post-secondary education is to make substantial contributions to cultural and economic development in the north.

#### Discussion Paper (1978)

##### The Pension Fund Debate

R.M. MacIntosh and J.F. Chalcraft

This paper is the published version of two presentations made at the OEC's Outlooks and Issues Seminar of November 1977. The first by MacIntosh deals with the indexing of public pension plans and the resulting inequities they create. Chalcraft concludes that both private and public pensions, for different reasons, will continue to encounter difficulties if the future economic climate does not improve.

#### Discussion Paper (1978)

##### Issues in Intergovernmental Relations

R. Simeon

In a speech prepared for an OEC Outlook and Issues Seminar, the author argues that the federal government's national policies are resulting in an increasing number of conflicts with the provincial governments. He believes that more decentralization and/or disentanglement of overlapping jurisdictions is needed in the areas of social and economic decision-making.

#### Issues and Alternatives 1978

##### Business Investment

This study addresses what the Council in 1978 believed to be a central issue in the future prosperity of Canada: 'how to increase and upgrade the quality of our capital stock through increased business investment' (page 2). The principal barriers to greater business in-

vestment were identified as: political uncertainty and government intervention; inadequate demand by the private sector; surplus capacity in certain industries reflecting changes in their competitive position; inadequate returns on investment; a relative reduction in internal cash flows for investment; and the relatively high cost of external financing. Given this set of barriers, the Council examined alternative policies which would stimulate long-run business investment. 'The main theme running through many of these suggestions is the desirability of shrinking the cash requirements of all levels of governments to free additional private savings to finance the increase in private capital investment that in the long run, is the prerequisite for increased productivity, the restoration of our international competitive position and a reduced reliance on external capital' (page 6).

## Issues and Alternatives 1978

### Government Regulation

This study is a three-part report which examines various issues in government regulation. The first part consists of a summary and Council recommendations on the subject while the second consists of a series of case studies followed by an outline of the economic rationale for government involvement. A complete list of regulatory agencies within the Ontario government forms the concluding section.

The recommendations made by the Council are directed towards alleviating the major drawbacks of government regulation. In brief, the Council feels that the objectives of government regulation can be more efficiently met through the use of the market. In cases in which it is not politically viable to implement a market alternative, regulatory agencies should be made more responsible through a clear definition of objectives and criteria for performance evaluation. The transaction costs attributable to regulation could be minimized if both the federal and provincial levels of government passed similar legislation.



The Ontario Economy 1978-1987 J.A. Sawyer, D.P. Dungan, and J.W.L. Winder

Whereas the objective of the study The Ontario Economy 1977-1987 was to draw attention to some problems which may confront the Ontario economy if certain economic trends continue, the 1978 issue updates the economic trends on which the forecasts were made. In particular, the assumptions underlying the energy investment, inflation, foreign exchange rates, and government expenditures are modified. Under the new set of assumptions the projected rate of growth of real provincial product is higher over the decade while the projected growth rate of employment and the relatively high growth rate of the service sector is unchanged.

Research Study 16 (1979)

Fiscal Transfer Pricing in Multinational Corporations

G.F. Mathewson and G.D. Quirin

The authors of this study describe the problems created by fiscal transfer pricing and discuss the relevance of these problems in an international and Canadian context. An analysis of the general institutional framework together with the opportunities and constraints faced by multinationals enables the authors to identify three major effects of fiscal transfer pricing: a reduction in tax and/or tariff receipts, encouragement to domestic firms to become branches of multinationals, a weakening of the tax and tariff system as an economic policy instrument. They also note that fiscal transfer pricing can only take place in the absence of an open market.

Referring to the limited Canada-United States data, the authors establish those markets in which fiscal transfer pricing is a possibility. The principal finding of the analysis is that multinationals have a relatively restricted scope for transfer price manipulation in Canada at present. However, they postulate that under certain conditions such as a free trade agreement between Canada and the United States the scope for fiscal transfer pricing would be greatly increased.

The Administrative Costs of Income Security Programs: Ontario  
and Canada

M. Mendelson

The author's general conclusion is that administrative costs of income security programs as a percentage of total costs are surprisingly low and have decreased or remained constant during recent years.

The study examines six programs to test two popular opinions that the ratio of administrative to total costs is high, and that it is increasing. The programs analysed are unemployment insurance, old age programs, family allowance, provincial and municipal social assistance, and workmen's compensation.

In the case of the unemployment insurance program, since 1971 (when the program was drastically changed), although the cost per claim submitted increased, the ratio of administrative cost to total cost remained stable at approximately six per cent. Family allowances which provide fixed payment regardless of income or need required little administrative expenditure, the ratio of administrative to total cost being less than one per cent. Provincial social assistance which provides assistance on the basis of need displayed a decrease in the ratio of administrative to total cost. The ratio appeared to have stabilized at around five per cent. In this case to achieve a 2-4 per cent reduction in total cost would have required a fifty per cent reduction in administrative cost. The ratio of administrative cost to total cost in the workmen's compensation program remained stable at eight per cent. The municipal social assistance program showed an increase in its administrative to total cost ratio since 1972-3, rising to thirteen per cent in 1979. The reason for this was probably that the transfer component of total cost had declined since the unemployment insurance program had expanded, leaving administrative costs to account for a larger share of the total.

The overall conclusion is that administrative costs per case and as a percentage of total costs have either remained constant or declined in the absence of a program change. In the case of unemployment insurance, changing the program increased cost per case, but decreased the ratio of administrative to total cost mainly because benefits paid increased faster than administrative costs.



The author points out that in the programs he examined it would have been futile to attempt to gain large decreases in total cost by reducing administrative cost, since the latter accounts for such a small proportion of the former.

In addition, he notes that one way to save on administrative expenses would have been to change a program's design to provide perhaps larger benefits but lower administrative costs. Since the benefits are transfers, rather than an exhaustive use of resources, they do not represent real economic costs as does administration. Consequently, large increases in the former may be acceptable if the result is a decrease in the latter.

#### Occasional Paper 10 (1979)

##### Controlling Health Care Costs by Direct Charges to Patients: snare or delusion?

M.L. Barer, R.G. Evans, and G.L. Stoddart

This study analyses a variety of 'direct charge' schemes for financing health care in Ontario. The perceived advantage of such schemes is that they keep a lid on health care expenditures by reducing unnecessary patient-initiated care; the snare is that the ill are the ones who must pay the charges. The delusion is the existence of evidence suggesting that patients who are not really ill are responsible for a significant fraction of the costs of health costs and that prices would be able to deter these patients first. The reintroduction of direct charges in Ontario would benefit a number of special interest groups: physicians and other health care providers through higher incomes, private insurance companies because of increased demand for supplementary insurance coverage, and the provincial government through lower budgetary expenditures. However, the general public would not reap any significant gain.



## Discussion Paper (1979)

### Public Policy and Future Population in Ontario

D.K. Foot

The author examines the economic implications of projected demographic changes in Ontario to the turn of the century. The study shows that the population would grow at about one per cent per annum through the 1980s, thereafter growing at only one-half of a per cent per annum. Accompanying this would be a steady increase in the number of persons aged sixty-five and over, but an even larger decrease in the number of persons of pre-working age. Consequently a higher proportion of the population would be of working age during the projection period than at any time during the previous sixty years. Depending on the demographic trends, Ontario's population level is projected to be between 9.5 million and 11.1 million by 2001.

The labour force is projected to grow faster than population and to contain a relatively higher proportion of young people. Population growth and the gradual aging of the population are expected to boost costs of certain public services: health care costs, for example, are expected to climb seventeen per cent over the period. Although some resources can be expected to be released from education, which primarily serves the young, the working population of the 1990s will have to be prepared to transfer a larger proportion of their incomes to the elderly if current levels of health and other public services are to be maintained.

## Discussion Paper (1979)

### Current Issues in Political Economy

A.M. Okun and R. Solomon

A.M. Okun begins this paper by demonstrating that whereas inflation of the 1960s displayed a classic case of too much money chasing too few goods, the 1970s experience was more complicated. Administered prices, implicit contracts in the labour market, changes in accounting methods, and indexing all contributed to the co-existence of inflation and unemployment. OPEC's sudden increase in the price of oil trig-

gered the recession, and society's attempts to adapt, made inflation slow to start, but very hard to stop.

The author argues that since the government was unable to control the way a reduction in nominal gross national product was split between a reduction in real output and prices, a unit fall in nominal output would be distributed nine-tenths to a fall in real output and one-tenth to a fall in inflation. He stresses the long- and short-run effects of fiscal/monetary cures, arguing that a depressed economy will not generate adequate levels of investment, which in turn means little increase in productivity in the future.

The proposed policy cure includes fiscal and monetary restraint, an incomes policy based on tax rewards and tax penalties, a reduction in indirect taxes, and a reduction in government regulations on business.

R. Solomon estimates that for each one dollar increase in the price of OPEC oil, OPEC receipts would increase by \$10 billion, with only \$5 billion being spent on imports. The predicted effect is adverse to economic growth in the United States but not to the dollar. The price or cost effect would set in motion a wage-price spiral, and the loss of purchasing power would reduce aggregate employment and output.

Solomon argues that the fall in the United States dollar prior to October 1978 was caused mainly by a deficit on the United States trade account, which in turn was caused by sluggish expansion in Europe and Japan until the end of 1977. European and Japanese growth rates picked up in 1978, and 1979, and by the fourth quarter of 1978, the American growth rate began to fall. In consequence, European countries recorded high rates of growth of imports, whereas the United States began to reduce its rate of growth of imports. As growth rates of output and imports began to converge in Europe and the United States, exchange rate movements began to reflect this convergence, and as the United States dollar stopped falling, so the yen, franc, and deutschmark ceased to rise.

Solomon stresses the need to accommodate increased interdependence between trading partners, particularly partners with differing internal rates of growth, arguing that it is policies and events in individual countries within the system, rather than the international monetary system itself that have caused problems of adjustment.



## Discussion Paper (1979)

### The Elimination of Mandatory Retirement: an economic perspective

J.E. Pesando

The author notes that recent changes in United States laws abolishing mandatory retirement are rooted more in human rights concerns than in economics. He argues that mandatory retirement is an efficient market response to the need for an effective dismissal procedure. Its removal would require replacement by alternative procedures as well as changes in seniority provisions.

The author claims that abolition of mandatory retirement would only reduce the tax burden on future generations if earnings tests were imposed on pension benefits; this, however, would be a counter-productive measure. Pesando favours improving the indexing of pensions to eliminating mandatory retirement as a means of maintaining satisfactory income levels for the elderly. He does not agree with the claim that indexing is something the country cannot afford, since indexing is concerned not with the size of the economic pie, but rather with the way it is divided.

If the reason for allowing postponed retirement is to increase the work effort of the elderly, then the author sees the need for actuarial adjustments to pensions to reflect the reduced retirement span. He concludes by noting that the argument that ending compulsory retirement would reduce job opportunities in the labour force is not substantiated by economic analysis.

## Issues and Alternatives (1979)

### Update 1979

#### Education

The Council recognized that for primary and secondary schools, curriculum and methods of financing may need to be changed frequently. It repeated its belief that province-wide tests in core areas were desirable, especially at the Grade 13 level. With respect to financing, the Council advocated that the provincial government hold to



a steadier long-term policy to allow schools to prepare for declining enrolments. It thought that individual districts should have some autonomy in deciding what projects to run, and urged that higher grants be awarded to poorer areas, to ensure uniformity of teaching standards. The Council urged that in determining grants, enrolments over a three-year period be used.

At the post-secondary level, universities and colleges should be free to set their own fees but the size of the government grant should not depend on fee revenues. The Council hoped that there would as a result be an increase in fees to reflect more accurately the differential costs of providing programs. Again, grants would be determined by enrolments and changes in education costs, but not by tuition revenues.

### Health

The Council suggested: that resources be diverted away from training physicians and directed to the training of paramedical personnel; that the growth of community health centres be encouraged; that alternative remuneration systems be explored, and that alternatives to acute-care hospitalization be examined. The Council reiterated its belief that salary or capitation systems would be an improvement over fee-for-service systems. It urged that the government play a more active role in preventing occupational accidents.

### Housing

The housing problem in Ontario was perceived as lack of income rather than market failure and so the Council advocated a shelter allowance to allow citizens to purchase or rent adequate housing. In addition, it advised that government regulation be evaluated in terms of its costs and benefits to society as a whole. For example, it was suggested that rent controls be lifted.

### Social Security

The Council urged the provincial government to reconsider the income supplement proposal. Existing programs were thought to be in need of amendment; for example, amounts paid to single persons under GAINS A

and GAINS D were not commensurate with the amounts paid to couples. Under the family benefits scheme the Council advocated removal of any bias on the basis of sex. In general it was thought that comprehensive reform would be needed to establish appropriate programs for the working poor.

### Research Study 17 (1980)

#### Housing Programs and Income Distribution in Ontario

G. Fallis

In this study, the author examines both rental and owner-occupied housing programs past and present and their effects on income distribution in Canada. Making use of a differential incidence approach and the concept of consumer's surplus, he evaluates the benefits of each program in order to determine whether or not they are progressively distributed with respect to recipient income and whether the level of benefits is related to the age of the recipient. He applies these tests to public, entrepreneurial, and non-profit programs, the residual lending program, the Home Ownership Made Easy plan, and the Assisted Home Ownership Program, as well as to such income tax provisions as exemptions for imputed income, depreciation allowances on rental residential buildings, and deductability of mortgage payments.

Fallis concludes as one major result that, contrary to widespread belief, only householders purchasing a first home have been seriously affected by rising shelter costs. 'Also of note is the fact that the benefits under the recent home ownership programs are extremely generous, much larger than the benefits under the rental programs. This contrasts sharply with the public perception of rental programs as generous welfare giveaways. In reality, the most generous welfare is available to middle- and upper-income homeowners' (page 135). The author concludes that while the individual programs are progressive compared to the neutral alternative (although regressive when compared to a shelter allowance), housing policy as a whole displays severe horizontal and vertical inequity.



## Research Study 18 (1980)

### Economic Analysis of Provincial Land Use Policies in Ontario

M.W. Frankena and D.T. Scheffman

The authors analyse the provincial government's role in municipal and regional planning from the point of view of opportunity cost and economic efficiency. The conversion of farmland to urban and other uses is discussed, as are the issues raised by the reports of the Ontario Planning Act Review Committee and the Federal/Provincial Task Force on the Supply and Price of Serviced Residential Land and the province's Green Paper on Planning for Agriculture. Regional land use planning under the Design for Development program, with particular attention to the Toronto-Centred Region Plan, is one issue considered.

The authors 'reject the simplistic statements of many planning and other government documents which argue that the obvious presence of externalities, public goods, etc. in land and housing markets is an automatic justification for government intervention. The case for intervention on efficiency grounds must be made on the basis of cost-benefit calculations (including, of course, the direct and indirect costs of intervention)' (page 30). Data gathered here for the first time show that there is little factual basis for recent alarm over the disappearance of farm land because the conversion of agricultural land to built-up urban use and non-farm rural residential use in Ontario has been taking place quite slowly relative to the rate of productivity increase in agriculture, the stock of agricultural land, and the decline in the acreage of census farms.

## Research Study 19 (1980)

### Opting Out of Medicare: private medical markets in Ontario

A.D. Wolfson and C.J. Tuohy

In this study of the kinds of doctors who choose to opt out of OHIP, Wolfson and Tuohy examine a wide range of statistics related to the growth of private medical markets for services insured by the program. The authors think that universal medicare is threatened by a financial dispute which has serious social implications. The key question is



whether the private sector should bear a significant proportion of the burden of medical costs or whether it should be, as the authors contend, the responsibility of the public sector. They raise a number of questions about relationships between individual doctors, their patients, their medical colleagues, medical organizations, and government. Although medical criteria are important in determining the services a physician will supply, practical decisions concerning hours of work, prices charged, and scheduling of appointments must be made with reference to social, economic, and political factors.

The authors emphasize the political and economic influences in their analysis of physicians' practices. They use material gathered from physician profiles maintained in OHIP files, together with a large amount of original and comprehensive information obtained via a survey. The data reveal that those who opt out of OHIP are more likely to be specialists, urban practitioners, ideological conservatives, or academic physicians.

#### Research Study 20 (1980)

##### Unemployment and Labour Force Behaviour of Young People: evidence from Canada and Ontario

F.T. Denton, A.L. Robb, and B.G. Spencer

This study discusses the factors which contribute to the high youth unemployment rate, examines the historical record of labour force participation, and provides some projections for the future. Using evidence from all of Canada and from Ontario, the authors assess long-term trends, shifts in the general economic climate, and the impact of higher youth unemployment rates on national output. Special attention is given to educational, occupational, and demographic characteristics, with detailed analysis of data from the Statistics Canada Labour Force Survey.

The study emphasizes the need to use a comprehensive macroeconomic framework; macroeconomic policies must be considered before a policy can be developed to stimulate youth employment. To a large extent the problem is caused by the high proportion of youth in today's population, and as this proportion declines so may the youth unemployment problem. Nonetheless, policy-makers should not neglect to focus

on the diminishing growth rate of the labour force in the future and, with it, the corresponding decrease in the rate of growth of potential aggregate output.

#### Discussion Paper (1980)

##### Class Actions as a Regulatory Instrument

D.N. Dewees, J.R.S. Prichard, and M.J. Trebilcock

This study examines class action procedures as a regulatory instrument using an analytical framework that assumes 'that from a wrongdoer's point of view the primary determinant of wrongful activity is the expected financial payment he faces for his wrongdoing ... Therefore, fines and civil damages, whether collected by public or private actions, can be seen as substitute mechanisms for achieving deterrence' (page 14). The relative effectiveness of various combinations of public and private enforcement are then evaluated in light of their ability to deter socially unacceptable behaviour, identify and equitably compensate those who have been harmed, and provide an efficient means of investigation and enforcement. Various design issues are raised and evaluated in order to determine what procedural or cost rules would be required to facilitate class action lawsuits. Recommendations are made as to those areas of the law in which class actions might be appropriate.

#### Discussion Paper (1980)

##### Ten Markets or One?: regional barriers to economic activity in Canada

A.E. Safarian

The author examines some of the ways in which regulatory and fiscal measures exercised by the federal and provincial governments impede the movement of goods, labour, and capital within Canada and outlines the policy choices which the country faces in dealing with these issues.



## Discussion Paper (1980)

### Nuclear Power at Ontario Hydro: a case study in technological innovation

F. Tapon and T.J. Osborne

Using a case study approach to examine Ontario Hydro's nuclear power program, Tapon and Osborne set out the factors - economic, environmental, and regulatory - influencing the diffusion of technology. The major finding is 'that many of the economic variables that help explain differences in the intra-firm rate of diffusion of innovations in the private sector in the United States and Canada also appear to play a major role in the public sector of the Canadian economy' (page 42). These include labour costs, the interest rate on debt issues, and the proportion of industry output that uses the new technique.

### Issues and Alternatives 1980

#### Policies for Ontario's Energy Problem

The Council recognizes the following fundamental goals: energy must be used more efficiently; benefits and costs of the growing energy shortage should be distributed fairly; real output should be kept close to its maximum possible; users of energy in the future should not face deprivation, while current users waste energy; governments should recognize that overseas supplies are not guaranteed.

It is noted that even a comprehensive policy package would only cushion the impact of future energy scarcity. Rationing should be avoided, prices should be allowed to rise or be forced up through taxes. This would tend to reduce Canada's dependence on foreign supplies, although it was recognized that higher prices would be inequitable and reduce overall prosperity.

Higher prices would be complemented by government contracts for specific exploration projects. To the extent that the fall in the standard of living was caused by higher prices, it could be at least partially offset by reductions in other excise taxes. There would be severe regional shifts, from the have-not provinces to the energy-rich provinces.



Rationing would only be contemplated to block imports or to cover interruptions in the flow of Canadian-produced petroleum. Since price rises by OPEC would decrease output and increase prices, measures to maintain demand and increase aggregate supply should be taken.

### Conference Proceedings (1980)

#### Energy Policies for the 1980s: an economic analysis

This two-volume collection of papers and proceedings is the published version of the OEC's Energy Conference held in late September 1979. Highlights of each of the papers presented are given below.

'Energy Policy: Overview and Macroeconomic Implications' by T.A. Wilson surveys the major energy issues and appraises the macroeconomic implications of adjusting to the world price.

In 'The Invisible Hand: The Pricing of Canadian Oil Resources,' L. Waverman argues 'that present Canadian oil and natural gas pricing policies should be dropped in favour of a policy which moved the price to near world levels within two years' (Vol. 1, page 54).

T.W. Powrie's 'Taxation and Energy' surveys the following topics in the area of taxation as applied to oil: 'The magnitude of changes in flows of revenues resulting from changes in the price of oil; taxation and the efficient allocation of resources to the production of energy; taxation and the equitable distribution of revenue from sales of energy; macroeconomic effects of changes in policies toward taxation and the price of energy' (Vol. 1, page 73).

The principal conclusion of 'Energy and Equalization' by T.J. Courchene 'is that the revenue-rich provinces are not bearing their fair share of equalization payments generated by these resource revenues' (Vol. 1, page 131).

In 'The Recycling Problem,' B.W. Wilkinson and B.L. Scarfe conclude that 'as oil prices are gradually increased to world levels, methods need to be devised to ensure that as far as possible, the benefits from such increases and from the exploitation of Canada's non-renewable oil and gas resources in general accrue to Canadians and are not simply appropriated by foreign transnational firms operating in this country' (Vol. 1, page 162).

J.F. Helliwell raises and quantifies some of the important issues surrounding Canadian exports of natural gas and electricity in 'Trade Policies for Natural Gas and Electricity.' He favours caution and flexibility in dealing with export proposals for natural gas because of the trade-offs involved.

In 'Financial Intermediation and Its Implications for the Recycling Problem,' Peter A. Campbell examines the financial recycling problem in the Canadian capital market from the viewpoint of a Canadian investment dealer. He concludes that 'there is no recycling problem at the present time. It is unlikely that there will be a recycling problem in the immediate future' (Vol. 2, page 77).

D.G. Hartle's 'Federal-Provincial Relations and Energy' discusses 'the kinds of modifications necessary to achieve economic efficiency and to maximize the collective benefit from non-renewable resource ownership, modifications arising because of the Canadian federal constitution and the fact that the producing provinces seek to capture all the collective benefit' (Vol. 2, page 141).

In his comments as rapporteur, Michael Spence makes two key points: 'One is that the most decisive issue in energy policy is, not surprisingly, who will get what fraction of rents that derive from the use of resources to produce petroleum. The second is that the macro-economic consequences cannot be disentangled from the distribution of rents' (Vol. 2, page 62).

### Developments Abroad and the Domestic Economy

These two volumes contain the papers, prepared comments on them, and an abbreviated record of the discussions they provoked at the Ontario Economic Council's conference on this topic in early June 1980.

Canada's economy is unusually 'open,' its imports of goods and services as a proportion of its gross domestic product have been from five to ten times as high as the corresponding figure for the United States; its exports and accordingly its dependence upon export markets to bolster the aggregate demand for its products have likewise been unusually high. Moreover it has relied on foreign sources of funds to finance many of its investment projects.

The supply shocks and other shocks that have rocked all Western economies led however to the realization that sources of energy were rapidly being exhausted. And the enormous increases in the prices of



crude petroleum and natural gas; the breakdown of the Bretton Woods system with its 'fixed' exchange rates; the growing strength and extension of regional common markets, especially the European Common Market; the increasing use of non-tariff barriers to trade; and finally the Tokyo Round and its implementation - all of these were bound to impose heavy pressures on all countries to adjust their economic structures. Particularly heavy pressures on the more open economies persuaded us that Canada and especially Ontario would be exposed to painful adjustment pressures.

Amongst the papers presented were:

'Canada in the North American trading economy' by Rodney de C. Grey - an agenda for discussion between the United States, Canada, and Mexico;

Tom Wilson's 'Macroeconomic trends and international trade: a general overview';

D.G. Hartle's 'The need for adjustment and the search for security: the barriers to change';

'Ontario: policies and problems of adjustment in the eighties' by Douglas Purvis and Frank Flatters;

'Canadian interests and the Tokyo Round trade agreements' by John Whalley;

'Problems that trade barriers and foreign ownership raise for Canada as we enter the 1980s' by Ronald J. Wonnacott and Paul Wonnacott;

'Can Canada be insulated from developments abroad?' by John Helliwell;

Larry Grossman, the Ontario Minister of Industry and Tourism, who spoke at the luncheon, described interprovincial barriers to trade, to capital flows, and to the movement of labour and suggested the need for co-ordinated federal and provincial procurement policies and for complementary, rather than competitive, regional economic development strategies.

Michael Spence, the rapporteur, stated in his summary that he was 'surprised that in a country like Canada ... an open economy ... heavily dependent on foreign events and markets, the business community did not participate in larger numbers ... The things that were discussed in the conference are of tremendous importance to Canada' (Vol. 1, page 119).



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